

Message Text

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PAGE 01 PRETOR 02395 061125Z

61

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SUBJ: GOVERNMENT SUBSIDIES TO SOUTH AFRICAN AIRWAYS

1. SOUTH AFRICAN AIRWAYS (SAA) IS STATE-OWNED AND OPERATES AS PART OF SOUTH AFRICAN RAILWAYS AND HARBORRS ADMINISTRATION (SARH).

2. SAG CONTROLLER AND AUDITOR-GENERAL HAS JUST PUBLISHED HIS ANNUAL REPORT ON SARH FOR FISCAL YEAR 1972/73 (ENDING MARCH 31). IN 1972/73 SAA EXPENDITURES OF R153.8 MILLION EXCEED INCOME OF R140.0 MILLION FOR DEFICIT OF R13.8 MILLION (R1.00 EQUAL \$1.50). COMPARABLE 1971/72 FIGURES WERE R121.1 AND R116.8 FOR LOSS OF R4.2 MILLION, BUT PROFITS OF R5.9 AND R176 MILLION WERE EARNED IN THE YEARS 1970/71 AND 1969/70 RESPECTIVELY.

3. IN BREAKING OUT LOSSES BETWEEN DOMESTIC AND INTERNATIONAL SERVICES (ALL IN MILLIONS OF RAND), THESE WERE:

	1972/73	1971/72
INTERNATIONAL REVENUES	83.8	67.8
INTERNATIONAL EXPENDITURES	95.4	72.0
INTERNATIONAL LOSSES	11.6	4.2
DOMESTIC REVENUES	56.2	48.9

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PAGE 02 PRETOR 02395 061125Z

DOMESTIC EXPENDITURES 58.4 49.0

DOMESTIC LOSSES 2.2 0.1

THUS BULK OF SAA LOSSES INCURRED ON INTERNATIONAL SERVICES WHILE DOMESTIC SERVICES CLOSE TO SELF-SUSTAINING.

4. 1971/72 AND 1972/73 GENERALLY CONSIDERED EXCEPTIONAL YEARS. IN MOST YEARS, SAA HAS SHOWN A PROFIT. CURRENT ESTIMATE IS THAT AIRLINE WILL SHOW SMALL PROFIT FOR 1973/74 OPERATIONS.

5. SARH OPERATES RAILWAYS, HARBORS AND INTERNAL PIPELINES AS WELL AS SAA. AIRLINE AND RAIL OPERATING DEFICITS WERE OFFSET BY PIPELINES AND HARBORS EARNINGS FOR AN OVERALL NET OPERATING PROFIT OF SARH OF 3.0 MILLION IN 1972/73 ALTHOUGH 1971/72 SHOWED A LOSS OF R17.0 MILLION.

6. ON INSURANCE OF AIRCRAFT HULLS, SARH GENERAL INSURANCE FUND BEARS SMALL PROPORTION OF RISK ALTHOUGH BULK OF INSURANCE PLACED WITH PRIVATE UNDERWRITERS. ON FLEET OF 31 AIRCRAFT (EIGHT 707'S, NINE 727'S, SIX 737'S, FIVE 747'S AND THREE HAWKER SIDDELEYS) VALUED A R173.4 MILLION, ONLY R30.6 IS INSURED THROUGH GENERAL FUND, WITH BALANCE OF R142.8 MILLION PLACED PRIVATELY. WAR RISK, HI-JACKING AND CONFISCATION COVERAGE IS SIMILARLY PLACED 85 PERCENT, 15 PERCENT GENERAL FUND. HOWEVER, SAA PAYS PREMIUM INTO GENERAL FUND, AND FROM AUDITORS REPORT, SAA APPEARS TO HAVE MADE OVER THE YEARS SUBSTANTIAL CONTRIBUTION TO FUND SURPLUS. WE CANNOT DETERMINE FROM REPORT IF FUND PREMIUM RATES COMPARABLE TO COMMERCIAL COVERAGE SINCE INSURANCE PREMIUM NOT SEPARATELY STATED IN PROFIT/LOSS ACCOUNT.

6. THE FOREGOING EARNING STATEMENT INCLUDES INTEREST CHARGES IN THE 1972/73 YEAR OF R12.0 MILLION AND DEPRECIATION CHARGES OF R22.6 MILLION. WE CANNOT ASSESS ADEQUACY THESE CHARGES BECAUSE NO SEPARATE BALANCE SHEET IS AVAILABLE FOR SAA. ITS TOTAL ASSETS APPEAR AS A ONE LINE ITEM IN THE SARH CAPITAL ACCOUNT AND SHOWN SAA ASSETS AT THE BEGINNING OF THE 1972/73 YEAR AS R122.1 MILLION AND R158.0 MILLION AT THE END. NO EXPLANATION IS GIVEN AS ASSETS ACQUIRED OR SOURCE OF FUNDS BEYOND NOTING THE ACQUISITION IN DESCRIPTIVE NARRATIVE OF THE ACQUISITION OF TWO 747'S AND A NEW 707 SIMULATOR.

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PAGE 03 PRETOR 02395 061125Z

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